From: S. Daniel Leon <daniel@celsius.network>
To: Anthony Merriman <anthony.merriman@celsius.network>
CC: Alex Mashinsky <alex@celsius.network>;Young Cho <young.cho@celsius.network>;Asaf Iram <asaf.iram@celsius.network>;Jessica Khater <jessica.khater@celsius.network>;Johannes Treutler <johannes.treutler@celsius.network>
Sent: 11/20/2019 12:07:35 PM
Subject: Re: CEL Token Redesign

Tldr (yet).

Suggest Fri before the trading strategy meeting we speak abt this in a focused way.

I will bring breakfast.

This is an important conversation to have, super important.

Anthony, thanks for the passion and hardwork.

On Wed, Nov 20, 2019, 12:01 PM Anthony Merriman wrote:
I think our discussions are missing key parts of this whole debate. This is just too important to let slide so I'm going to keep pounding the table until we can fix the system.

1. Buying tokens doesn't make the token valuable. It only changes the last traded price for the asset in the market. That being said, I'm *not* saying we can't have a formal buyback program. We just need to maintain these tokens in our treasury or burn them. When we change our tokenomics to directly reward CEL token holders (via varying, high interest rates paid in USDC/BTC), our buyback program puts $ directly back into our company.
2. We have to make the CEL token valuable. The current system is a convoluted version where we pay varying amounts of bonus interest in our native token and where the required CEL notional value held by user is a function of their total asset balance. The only value for CEL is for users who deposit assets into our app and are willing to hold the CEL token. Anybody who exists outside our ecosystem will properly value CEL at $0.00. As an aside, CEL also goes to $0.00 inside our system if we cannot maintain the highest interest rates in the market. Meaning, if our average interest rate earned is less than the competition, CEL is $0.00 outside our system and also $0.00 inside our system. This is easily fixable by changing the structure of the token from an indirect subsidy to a direct, cash-flow producing asset. (We could also pay cash-flows to holders *outside* our ecosystem but I wouldn't recommend this until far in the future because I view it as strategically disadvantageous)
3. I have to reiterate once more... a negative interest subsidy for ordinary depositors is both unsustainable and strictly inferior to a positive, direct interest bonus to CEL token holders. Our two-tier rewards system CANNOT work in the medium to long run. This isn't based on my opinion but based on a fair-market clearing rate of return. The only way to sustain this type of system is to pay more total interest than any potential competitor. If this works, it's not the structure of the system, it's just us being better than everyone else.
4. I agree with the idea of paying 20% of our revenue directly to CEL token holders. This is BY FAR the best thing we can do. It's also the functional equivalent of what I'm proposing. The issue is that we can't directly do this. My proposal is a solution that skirts around this issue and allows us to *effectively* pay a certain percentage of our revenues to CEL token holders directly and also allows us to manage the monetary supply of our token. We would have much greater control over market pricing of each token by strategically changing our interest rates weekly.
5. At the heart of these changes, I strongly believe we need to simplify financial utility of the token and make the value proposition both clear and extrinsic. At the same time, as we simplify the valuation of the token, we increase the complexity of the utility of the token (for access to all of the traditional banking services that Celsius can provide to our clients).

On Wed, Nov 20, 2019 at 10:56 AM Alex Mashinsky wrote:
Anthony, love the fresh thinking and would be happy to dive into the details.

We just finished an audit of CEL interest and it looks like we are supposed to buy $70k a week instead of the $40k we are buying. We will come back with exact numbers. the issue was that 1600 non americans who chose to be paid in CEL were paid in kind.

This changes the picture as we will have a large one time buy and then larger weekly buys. This gives us a great opportunity to re launch CEL properly. We have a 94% HODL ratio for CEL. so almost everyone who is paid in CEL does not sell it. We need to flush through the last 3m CEL that ICO holders are selling and then we will see new 52 week highs.

We do not need to reinvent what is already working, BNB has shown the path as to how to create $3B of market cap by sharing 20% of net income with coin holders. We just need to do better than them. do some homework on BNB and you will see how much more powerful our model is. Interest income + loans is 100x bigger than trading in BTC but it takes much longer to build...

As we increase users and total AUM the formula we currently have will driver CEL above $1 which will create a $250m treasury for Celsius...

Keep calm and carry on...

On Wed, Nov 20, 2019 at 10:11 AM Anthony Merriman wrote:
One other key issue around "dollarization" that I forgot to include in the original proposal:

Our current negative interest subsidy / rewards program encourages CEL holders to sell their excess tokens as the price increases. It's economically rational to assume that the goal of the CEL holder is to maximize their interest earned on their other crypto holdings. As CEL price increases, the token holder is required to hold fewer tokens to maintain their loyalty status. The new proposed system encourages all CEL holders to always hold their tokens because it's the most economically efficient strategy.

On Tue, Nov 19, 2019 at 3:50 PM Anthony Merriman wrote:
Good afternoon everyone,

We've spent a lot of time discussing and agonizing over how to make the CEL token a legitimate asset in the cryptocurrency ecosystem. I've spent a fair bit of time thinking about cryptoeconomics more generally and specifically about our token. From my perspective, there are a number of issues that we can address with a redesign and relaunch of our token. I'm more than happy to discuss in depth about the assumptions in the attached document and my opinions about why we need a full redesign rather than small tweaks to our current formula.

My hope is to start a deeper intellectual discussion about my suggestions below and then potentially circulate these ideas further in the company. Once we can come to a consensus on specifics, we can draft a formal proposal with an implementation plan. Many of the suggestions require support from various parts of the business. Also, I'm calling this version 1.0 because I don't expect this to be the perfect solution. I do think it contains many of the required components, however.

What I want to *avoid* is doing nothing. Let's figure this out together and make the changes we need!

(Document copy and pasted below)

CEL Moon v1.0

Objective: Redesign the Celsius native token to promote community engagement, price discovery, and value creation for the masses

Current CEL Token Design: The current implementation of the CEL token creates a synthetic utility in two ways:
1. A negative deposit subsidy for ordinary deposits (CEL holders receive "bonus" interest based on loyalty status and total holdings)
2. An interest rate reduction for USD loans for retail depositors

Key Issues: Celsius must address the following issues (at a minimum) if we want to create a token that is viable in the broader crypto ecosystem:
1. Liquidity
    a. As it stands now, the average crypto holder has a difficult time acquiring CEL tokens
    b. This is a bit of a chicken vs. egg problem but many people feel uncomfortable holding or being rewarded with an asset that they cannot easily convert to cash (or other cryptos)
2. Regulatory Status
    a. The CEL token sits in a bit of an ambiguous regulatory grey area in several jurisdictions
    b. Many exchanges (and individuals) are wary of supporting an asset that could be classified as a security
3. Transparency
    a. It remains unclear precisely how many CEL tokens are circulating and potentially could be issued in the future
4. "Dollarization" of CEL
    a. In our current design, we are required to issue a larger number of CEL tokens to depositors who earn interest in CEL as the CEL price decreases. This is because the bonus interest is denominated in an asset other than CEL (effectively"dollarized")
    b. This creates an adverse market condition when CEL price decreases because the potential supply of CEL for sale also increase in number

Required Characteristics: These are the minimum characteristics we need for the CEL token to thrive:
1. Moderate Liquidity
    a. Users need to be able to easily convert CEL into BTC/fiat
    b. 1% float is a good target for average daily trading volume (meaning 1% of total tokens are trading on a daily basis)
2. High Availability
    a. Users need to be able to access CEL token liquidity on multiple real exchanges with verifiable volume and KYC procedures (regulated or likely to be regulated exchanges)
    b. Ideally Celsius can partner (or find a way to facilitate) with a dealer to make CEL available to anyone who passes KYC
3. Low Velocity
    a. Users need to be incentivized to accumulate CEL tokens and maintain their exposure over time
4. Translatable Value
    a. CEL token holders need to be able to approximate/calculate an expected, discounted value per token based on the success of the company and their expectations for the crypto market

Proposed New Design:
1. Change passive, negative deposit subsidy to an active, positive CEL interest bonus
    a. The more efficient and direct way to create value for CEL token holders is to allocate a larger percentage of our revenue directly to the CEL token deposits rather than penalizing regular depositors with a gated rewards system
    b. There are two specific steps that must be accomplished for this task:
        i. Phase out (or immediately eliminate) the CEL bonus interest rewards program
        ii. Boost CEL deposit rates to 10-12% (but avoid any explicit revenue share agreements or intentions)
        iii. Pay CEL interest in USDC/fiat or potentially BTC. This encourages CEL holders to go and purchase more CEL.
2. Remove CEL as a form of payment to Celsius

   a. Celsius needs to *dis*incentivize users returning their CEL tokens to the firm
   b. The immediate adjustment is to change the current loan interest rate reduction for payments in CEL
   c. Launch a new loan bonus program that will offer a reduced rate (0% interest) for any retail loan where the borrower provides 10% of the loan collateral in CEL (to be locked for the duration of the loan)
3. Launch formal, explicit CEL buyback program
   a. Use 10% or 20% of total revenues to buyback CEL tokens every month
   b. Burn or segregate bought tokens (segregation could include treasury but I would recommend against this)
4. Utilize CEL as a membership token for Celsius enhanced products and services
   a. Set 1 CEL as the required wallet holdings for participation
   b. Launch rate lock product for members
      i. Lock 10% of deposit as CEL to get 10% bonus on a fixed rate (minimum 3 months)
      ii. Lock 20% of deposit as CEL to get 20% bonus on a fixed rate (minimum 3 months)
   c. Launch structured product suite (8.8%, 50% cap, 100% cap, -25% floor, etc.) for members
   d. Launch savings account (constant $ or BTC valued account with interest)
5. Rollout CEL KYC Identity Solution / Partnership
   a. Award a unique number of CEL (1 to 25 range) for each user who successfully completes the KYC process
   b. Generate a unique address for this user and deposit the specific CEL quantity to this address
   c. Derive a verification process for 3rd party applications and partners to reference this wallet for their services (to be discussed further)

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- NASDAQ interview with Celsius
- Celsius video presentation
- the original Cryptobrawl with Nouriel Roubini and the 2.0 Vegas round two debate,
- Celsius TNW interview with Tim Draper.
- Blockchain Inventor joins Celsius